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Innovative Small Business Financing

The Massachusetts Industrial Finance Agency introduces an innovation in financing for smaller businesses: the Guaranteed Loan Program.

In recent years, smaller companies have been burdened with high and volatile interest rates and unpredictability in long term borrowing. Unlike larger, rated companies, these smaller firms have individually been shut out of the public credit market, where beneficial long term, fixed rate financing is still available.

MIFA's Guaranteed Loan Program is designed to open this market to growing smaller companies able to arrange for the participation of their local banks.

Bonds issued by MIFA to fund loans for these small companies are expected to receive a high credit rating from the major rating agencies. MIFA can then package several loans and sell them nationally to institutional and individual investors, achieving cost economies for small borrowers.

The bottom line: advantageous borrowing terms for the smaller growing company.





Fixed Rate, Long Term Loans

Under the terms of the program, MIFA will guarantee the repayment of 100 percent of principal and interest on first mortgage loans for eligible projects. MIFA has arranged for a major insurance company to partially reinsure the major portion of MIFA's commitment in order to enhance market acceptance for its bonds.

With this credit structure, bonds to finance several of these loans can be combined and sold in the national bond market at a fixed interest rate, and amortized over a period of up to 20 years for real estate projects.

The guaranteed loans can cover up to 90 percent of the value of the project on real estate loans, and 80 percent of the cost on equipment loans, plus 6 percent insurance premium. The loan for each real estate project can be as much as \$2.5 million.

Local Bank Participation

Local banks will continue to play an important role in all MIFA projects. The program will give banks the opportunity to offer their customers long term, fixed rate financing without increasing the bank's tax-exempt portfolio.

Companies must secure from the participating bank a small letter of credit equal to one year's principal and interest to provide liquidity and credit support for the loan.

Advantages of the Guaranteed Loan Program

The benefits for the growing smaller businesses are substantial:

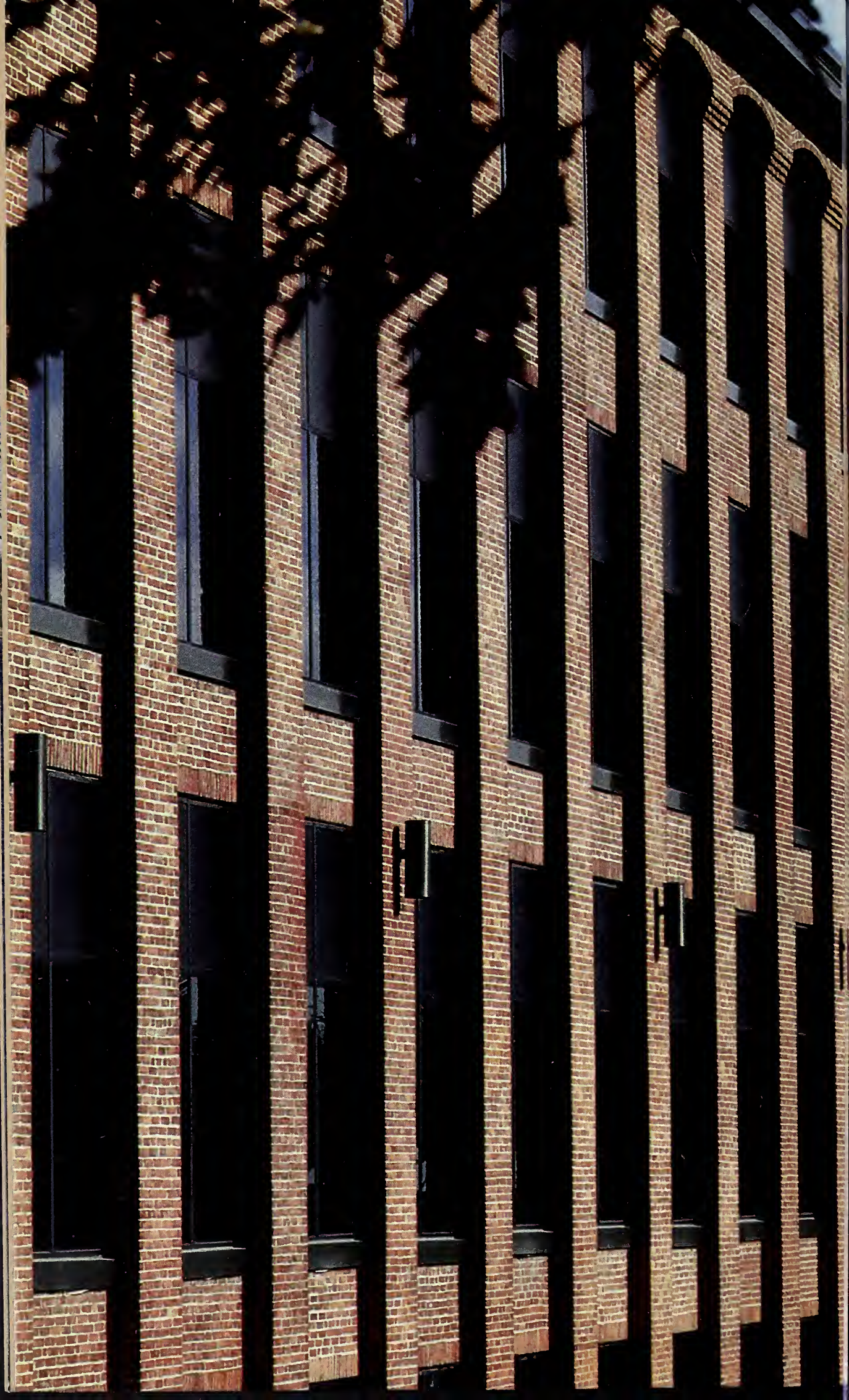
Inflation Protection – The fixed interest rate that these loans carry provide the borrowing company with the assurance that the rate on the loan will not change, even in the face of changing market conditions.

Long Term Maturities – With maturities of up to 20 years, the Guaranteed Loan Program enables small firms to engage in long range financial planning, with capital costs fixed over longer periods.

Wide Range of Eligible Projects – Most projects that qualify for industrial revenue bond financing through MIFA are also eligible for the Guaranteed Loan Program. This includes certain office building projects that are located within Commercial Area Revitalization Districts (CARDs).

Fast Loan Approval – Within one week MIFA will provide a preliminary indication of a project's eligibility. Projects can begin after the "Official Action" vote from MIFA, which will occur no later than 30 days following receipt of an application, with outside construction financing secured by the applicant. If necessary, MIFA will assist applicants in obtaining interim financing between MIFA loan approval and the time loans go to market.









Eligible Projects

Certain criteria must be met to qualify for MIFA's Guaranteed Loan Program:

1. All projects must create employment in Massachusetts, and be otherwise eligible for industrial revenue bond financing.
2. The proceeds of the loan must be used to finance land, plant or equipment purchases.
3. The Guaranteed Loan Program applies only to first mortgage loans, and the loan amount cannot exceed \$2.5 million for real estate and \$1 million for equipment.
4. Companies must generally have minimum sales of \$1 million, and a net worth of \$500,000.
5. MIFA will guarantee certain types of commercial office building projects if they are located in a Commercial Area Revitalization District (CARD). Recreation, entertainment and retail businesses are excluded from the program.
6. Speculative industrial and commercial projects must be at least 50 percent pre-leased to qualify for a guaranteed loan.

Contact MIFA for more details on eligibility requirements.

Proposed Guaranteed Financing

Project Costs		
Land & Building		\$1,000,000
Cost of Issuance (estimated)		\$ 40,000
Insurance Premium (6%)		\$ 60,000
Total Project Cost		\$1,100,000
		× .90
Insured Bond Amount		\$1,000,000
(90% of real estate value plus reasonable costs of financing)		
Less:		
Cost of Issuance	\$ 40,000	
Insurance Premium	\$ 60,000	
	\$100,000	\$ 100,000
Net Proceeds to Borrower		\$ 900,000
Annual Debt Service:		
(\$1,000,000 @ 10% fixed payment for 20 years)		
\$100,000 (interest) + \$17,459 (principal)		\$ 117,459
Net Interest Cost to Borrower:		
(Year 1)		
Annual Interest	=	$\frac{\$100,000}{\$900,000} = 11.1\%$
Net Proceeds to Borrower		

Numbers exclusive of letter of credit fee, which may vary from bank to bank, on one year's principal and interest.





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Steps to Follow for Application

Step 1. Contact MIFA to determine eligibility of the project.

Step 2. Fill out the Guaranteed Loan Program Application, available from MIFA. At this time, bond counsel for the loan pool will arrange a date for a public hearing on the project.

Step 3. MIFA will initiate contact with the local Industrial Development Financing Authority, if one exists, to obtain local approval for the project.

Step 4. MIFA's board of directors will take the first "Official Action" vote to approve the project. This must occur before commitments for the project, including a purchase and sale agreement for property or a purchase order for equipment, are made.

Step 5. Construction or purchase of the building or equipment may commence with interim bank or internal financing. If requested, MIFA will assist applicants in arranging short term, interim financing for the period between project completion and the time the loans are sold on the public market.

Step 6. MIFA will give final approval to all loans in the pool, issue the bonds, and sell them on the public market. Final interest rates will be determined by market conditions on the date of the sale.

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